

**SPENCER  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

## TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 14
Statement of Activities	B 15-16
Governmental Fund Financial Statements:	
Balance Sheet	C 17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 18
Statement of Revenues, Expenditures and Changes in Fund Balances	E 19-20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 21
Proprietary Fund Financial Statements:	
Statement of Revenues, Expenses and Changes in Net Assets	G 22
Statement of Cash Flows	H 23
Notes to Financial Statements	24-32
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	33
Notes to Required Supplementary Information - Budgetary Reporting	34
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 35
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 36
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 37-38
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4 39
Schedule of Expenditures of Federal Awards	5 40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	41-42
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	43-44
Schedule of Findings and Questioned Costs	45-48

**SPENCER COMMUNITY SCHOOL DISTRICT**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September, 2006 Election)</b>		
Randy Van Dyke	President	2007
David Schlichtmeier	Vice President	2006
Dean Mechler		2008
Ross Brockshus		2006
Les Zobrist		2008

**(After September, 2006 Election)**

Randy Van Dyke	President	2007
David Schlichtmeier	Vice President	2009
Dean Mechler		2008
Ed Ver Steeg		2009
Les Zobrist		2008

**School Officials**

Greg Ebeling	Superintendent
Sharon Slawson	District Secretary /Treasurer

# BRUCE D. FRINK

## Certified Public Accountant

### Independent Auditor's Report

#### Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

#### Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

#### Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
Spencer Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spencer Community School District, Spencer, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

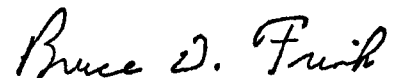
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spencer Community School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated March 13, 2008 on our consideration of Spencer Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spencer Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Bruce D. Frink".

**BRUCE D. FRINK**  
**Certified Public Accountant**

March 13, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **SPENCER COMMUNITY SCHOOL DISTRICT**

Spencer Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### **2007 FINANCIAL HIGHLIGHTS**

- The District passed the Instructional Support Levy commencing in 2007-08. The levy was authorized for seven years at 7% of the regular program district cost with a maximum income surtax levy set at 5%. The Board also approved the fact that no property tax, except for the \$1.00 required by the State, be levied against the patrons of the District.
- The Middle School building was completed and dedicated.
- The Family and Consumer Science addition was completed by January 2007.
- Some additional space was remodeled at the Central Office in order to house approximately twenty-five additional AEA staff.
- Louis Anthony Curiel purchased the Reynolds building from the District for \$170,507.68, of which \$9,000 has already been paid. One hundred thousand dollars was paid upon signing of the contract with the balance of sixty-one thousand five hundred seven dollars and sixty-eight cents to be paid over a fifteen year period.
- The District reduced staff by approximately twelve teacher associates, and one special education teacher. The teacher associates and special education teacher were not hired for the subsequent school year in an attempt to streamline the services provided to the students. With the anticipation of declining enrollment, this action will also help reduce personnel costs to the District.
- The District re-configured the administrative staff at the elementary level. With the re-configuration in place the District was able to save personnel costs with the elimination of one elementary principal position. The elementary buildings will now operate with one Head Principal and one Assistant Principal.
- In an attempt to enable future expansion of school facilities the District purchased property at 802 East 2<sup>nd</sup> Street, Spencer, Iowa. The buildings at that location were razed and the lot was completed for future use as deemed by the Board.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Spencer Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Spencer Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Spencer Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Spencer Community School District Annual Financial Report**

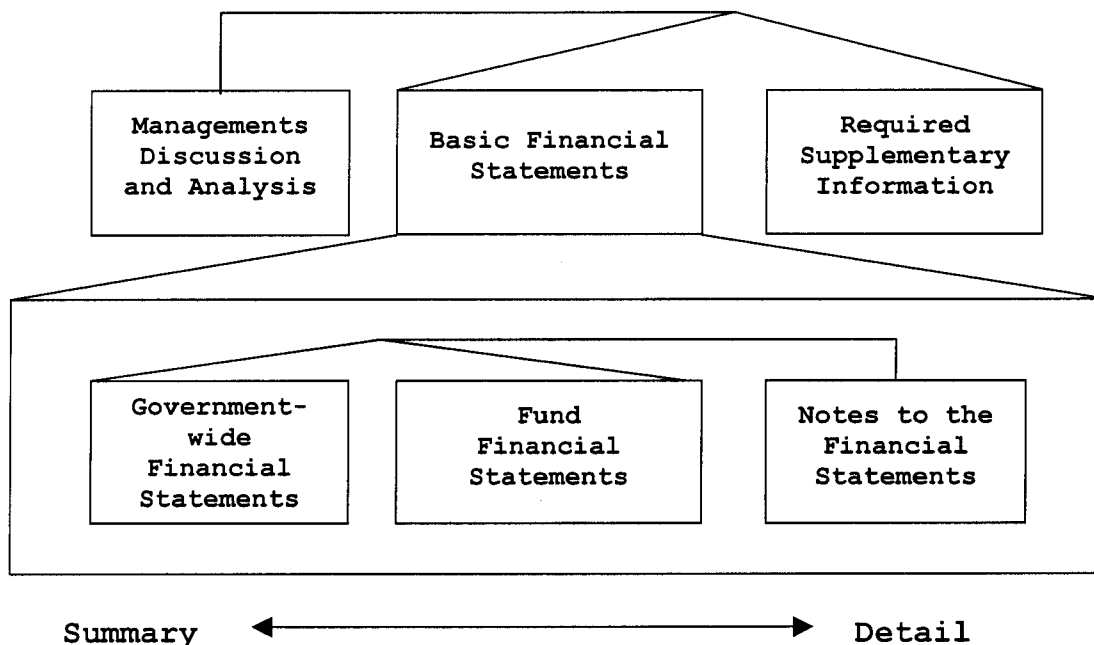


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> <li>. Statement of Net Assets</li> <li>. Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>. Balance sheet</li> <li>. Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>. Statement of Net Assets</li> <li>. Statement of Revenues, Expenses and Changes in Net Assets</li> <li>. Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Net Assets, a statement of revenues, expenses, changes in net assets and a Statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to 2006.

Figure A-3  
Condensed Statement of Net Assets  
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Current assets	12,012	12,509	75	123	12,087	12,632	-4.51%
Capital assets	20,084	17,455	79	37	20,163	17,492	13.25%
<b>Total assets</b>	<u>32,096</u>	<u>29,964</u>	<u>154</u>	<u>160</u>	<u>32,250</u>	<u>30,124</u>	<u>6.59%</u>
Current liabilities	7,960	7,052	9	8	7,969	7,060	11.41%
Non-current liabilities	9,258	10,163	-	-	9,258	10,163	-9.78%
<b>Total liabilities</b>	<u>17,218</u>	<u>17,215</u>	<u>9</u>	<u>8</u>	<u>17,227</u>	<u>17,223</u>	<u>0.02%</u>
<b>Net Assets</b>							
Invested in capital assets, net of related debt	11,234	7,815	79	37	11,313	7,852	30.59%
Restricted	2,695	3,504	-	-	2,695	3,504	-30.02%
Unrestricted	949	1,430	66	115	1,015	1,545	-52.22%
<b>Total net assets</b>	<u>14,878</u>	<u>12,749</u>	<u>145</u>	<u>152</u>	<u>15,023</u>	<u>12,901</u>	<u>14.13%</u>

The District's combined net assets increased, primarily in capital assets, from the prior year. Increased capital assets came as a result of using current restricted resources, primarily for the middle school construction project.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

**Figure A-4**  
**Change in Net Assets**  
**(Expressed in Thousands)**

	<b>Governmental Activities</b>		<b>Business type Activities</b>		<b>Total District</b>		<b>Total Change</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2006-07</b>
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	1,395	1,113	545	491	1,940	1,604	20.95%
Operating grants, contributions and restricted interest	3,230	2,342	386	351	3,616	2,693	34.27%
Capital grants, contributions and restricted interest	100	100	-	-	100	100	0.00%
General revenues:							
Property tax	5,864	5,706	-	-	5,864	5,706	2.77%
Local option sales tax	1,342	928	-	-	1,342	928	44.61%
Unrestricted state grants	7,443	7,681	-	-	7,443	7,681	-3.10%
Unrestricted investment earnings	92	135	-	-	92	135	-31.85%
Other	53	323	-	-	53	323	-83.59%
Total revenues	<u>19,519</u>	<u>18,328</u>	<u>931</u>	<u>842</u>	<u>20,450</u>	<u>19,170</u>	<u>6.68%</u>
Program expenses:							
Governmental activities:							
Instruction	12,039	11,499	-	-	12,039	11,499	4.70%
Support Services	3,455	3,937	-	-	3,455	3,937	-12.24%
Non-instructional programs	-	-	945	835	945	835	13.17%
Other expenses	<u>1,896</u>	<u>2,988</u>	<u>-</u>	<u>-</u>	<u>1,896</u>	<u>2,988</u>	<u>-36.55%</u>
Total expenses	<u>17,390</u>	<u>18,424</u>	<u>945</u>	<u>835</u>	<u>18,335</u>	<u>19,259</u>	<u>-4.80%</u>
Change in net assets	<u>2,129</u>	<u>(96)</u>	<u>(14)</u>	<u>7</u>	<u>2,115</u>	<u>(89)</u>	<u>-2676.40%</u>

Property tax, local option sales tax and unrestricted state grants account for 66% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$19,518,814 and expenses were \$17,390,067. In a difficult budget year the District balanced the budget by reducing discretionary spending and seeking out alternative revenue sources, such as grants. Revenues and expenses increased due to the completion of the construction project and beginning of payment on revenue bonds.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
 (Expressed in Thousands)

	Total Cost of Services		Net Change	Net Cost of Services		Net Change
	2007	2006	2006-07	2007	2006	2006-07
	\$	\$	%	\$	\$	%
Instruction	12,039	11,499	4.70%	8,638	9,207	-6.18%
Support Services	3,455	3,937	-12.24%	2,940	3,544	-17.04%
Non-instructional programs	-	-	0.00%	-	-	0.00%
Other expenses	1,896	3,419	-44.55%	1,088	2,118	-48.63%
Totals	17,390	18,855	-7.77%	12,666	14,869	-14.82%

- The cost financed by users of the District's programs was \$1,394,578.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,594,977
- The net cost of governmental activities was financed with \$5,864,528 in property tax, \$7,442,828 in state foundation aid, \$1,341,775 in local option sales tax and \$91,970 in interest income.

#### **Business Type Activities**

Revenues of the District's business type activities were \$945,102 and expenses were \$931,078. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Increases in Federal meal reimbursements and cost containment measures contributed to the nutrition fund financial status.

#### **INDIVIDUAL FUND ANALYSIS**

As previously noted the Spencer Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$14,877,654, 17% greater than last year's ending fund balances of \$12,748,907.

The District used current resources to purchase fixed assets that will be depreciated over the useful lives of the assets. This trend will begin to reverse as major building projects are completed.

#### **Governmental Fund Highlights**

- The District's General Fund balance decreased by over \$600,000. 4% allowable growth is not adequate to keep pace with rising costs across the board.
- With the passage of the bond issue and the use of LOSST dollars construction of the Middle School is completed. The facility is in full operation.

## Proprietary Fund Highlights

Federal reimbursements increased due to price increases in Federal nutrition programs.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 32 and 34.

## Legal Budgetary Highlights

The District's total actual receipts were approximately \$830,000 greater than the total budgeted receipts, a variance of 5%. The most significant change resulted in the District receiving more in various components of miscellaneous revenue than originally anticipated.

Total expenditures were less in total than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending through its line item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2007, the District has invested more than \$28 million in a broad range of capital assets including school buildings, athletic facilities, central kitchen, maintenance and administrative buildings, computer and audiovisual equipment, maintenance equipment, school buses, library holdings and textbooks. Total depreciation expense for the year exceeded \$870,000.

Figure A-6  
Condensed Statement of Net Assets  
(Expressed in Thousands)

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Land	639	639	-	-	639	639	0.00%
Land improvements	478	510	-	-	478	510	-6.27%
Buildings	17,821	6,977	-	-	17,821	6,977	155.42%
Construction in progress	-	8,524	-	-	-	8,524	-100.00%
Furniture and equipment	1,146	805	79	37	1,225	842	45.49%
Totals	20,084	17,455	79	37	20,163	17,492	15.27%

## Long - Term Debt

The District has \$3,600,000 in outstanding general obligation bonds for the construction of a new middle school building. These bonds have an average interest rate of 4.65%. They will be paid off over the next 18 years.

The District issued \$5,250,000 in revenue bonds for the construction of the new middle school building. These funds have an average interest rate of 4.18%. They will be paid off over the next 9 years with proceeds from the 1% Clay County school infrastructure local option sales tax.

**Figure A-7**  
**Outstanding Long-Term Obligations**  
**(Expressed in Thousands)**

	<b>Total</b>		<b>Total</b>
	<b>District</b>		<b>Change</b>
	<b>June 30,</b>		<b>June 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2006-07</b>
	\$	\$	
General obligation bonds	3,600	3,740	-3.74%
Revenue bonds	5,250	5,900	-11.02%
Compensated absences	30	34	-11.76%
Early retirement	377	490	-23.06%
Total	<u>9,257</u>	<u>10,164</u>	<u>-8.92%</u>

## FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District will continue to seek out new sources of revenue.
- Future enrollment stability is a critical element in maintaining a sound financial foundation. The District continues to work with other city leaders to enhance economic development in order to increase student enrollment.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). Employee wage and benefit settlements exceeding the growth rate in State funding will continue to force the District to consider additional budget reductions to balance the General Fund budget. A solution needs to be found.
- The District continues its cost-containment endeavors by monitoring expenses and personnel costs, and reducing or eliminating such liabilities, without affecting the quality of education of each and every child in the District.
- The passage of the Instructional Support Levy will enable the District to update curriculum and technology to enhance the learning experience of all students at Spencer. The purchase of the curriculum and technology would not be possible without the Instructional Support Levy dollars.
- Energy Management Improvement School Capital Loan Note, Series 2007 in the amount of \$1,285,000 was issued to enable the District to update infrastructure and implement energy savings measures.
- Local Option Sales and Services Tax Revenue Bonds, Series 2007-423B in the amount of \$2,310,000 were issued to enable the District to update infrastructure.

- With the Energy Management Improvement School Capital Loan Note, and the Local Option Sales and Services Tax Revenue Bonds the District will be able to enhance its infrastructure and implement energy savings measures to reduce the cost of energy in the future. With the rising cost of oil, measures need to be taken to provide the most cost effective ways to use our natural resources.
- The District continues to research health insurance coverage and cost. It is an ongoing effort of the District to provide the best possible coverage to its employees at the lowest possible cost. This becomes more of a struggle each year, but continues to be a high priority for the District.
- The Board is working with several organizations to assist in the big question "What to do with the old Middle School". Community Housing Initiatives (CHI) has filed a grant with the state to purchase the second and third floors of the former Middle School and remodel the floors to provide low to moderate income level housing; "The Friends of the Auditorium" are interested in obtaining funding to preserve the historical nature of the auditorium portion of the former Middle School.
- Once again unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act" and "GASB 34" to name a few.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Greg Ebeling, Superintendent, Spencer Community School District, 23 East 7<sup>th</sup> Street, Spencer, Iowa 51301.

## Basic Financial Statements



## SPENCER COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	3,474,143	20,611	3,494,754
ISCAP investments	1,663,368	-	1,663,368
Receivables:			
Property tax			
Current year	49,427	-	49,427
Succeeding year	6,088,285	-	6,088,285
Due from other governments	732,861	17,746	750,607
Other receivables	3,348	13	3,361
ISCAP accrued interest receivable	497	-	497
Inventories	-	36,627	36,627
Capital assets, net of accumulated depreciation	20,083,898	78,642	20,162,540
<b>Total assets</b>	<u>32,095,827</u>	<u>153,639</u>	<u>32,249,466</u>
<b>Liabilities</b>			
Accounts payable	157,598	-	157,598
Unearned revenue	-	9,098	9,098
Accrued interest payable	30,221	-	30,221
ISCAP warrants payable	1,666,000	-	1,666,000
ISCAP accrued interest payable	12,786	-	12,786
Deferred revenue:			
Succeeding year property tax	6,088,285	-	6,088,285
Federal programs	5,453	-	5,453
Long term liabilities:			
Portion due within one year:			
Compensated absences	30,400	-	30,400
Early retirement	77,374	-	77,374
General obligation bonds	150,000	-	150,000
Revenue bonds	670,000	-	670,000
Portion due after one year:			
Early retirement	300,056	-	300,056
General obligation bonds	3,450,000	-	3,450,000
Revenue bonds	4,580,000	-	4,580,000
<b>Total liabilities</b>	<u>17,218,173</u>	<u>9,098</u>	<u>17,227,271</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	11,233,898	78,642	11,312,540
Restricted for:			
Management levy	118,916	-	118,916
Physical plant and equipment levy	712,655	-	712,655
Capital projects	1,207,837	-	1,207,837
Debt service	655,427	-	655,427
Unrestricted	948,921	65,899	1,014,820
<b>Total net assets</b>	<u>14,877,654</u>	<u>144,541</u>	<u>15,022,195</u>

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	\$	\$	\$	\$	\$	\$
12,038,592	1,394,578	2,006,047	-	(8,637,967)	-	(8,637,967)
Functions/Programs						
Governmental activities:						
Instruction:						
Support services:						
Student services	198,050	-	-	(198,050)	-	(198,050)
Instructional staff services	343,820	-	-	(343,820)	-	(343,820)
Administration services	1,939,532	-	-	(1,939,532)	-	(1,939,532)
Operation and maintenance of plant services	487,812	515,318	-	27,506	-	27,506
Transportation services	485,685	-	-	(485,685)	-	(485,685)
	3,454,899	515,318	-	(2,939,581)	-	(2,939,581)
Other expenditures:						
Facilities acquisition	2,856	28,984	100,000	126,128	-	126,128
AEA flowthrough	641,561	641,561	-	-	-	-
Long-term debt interest	387,577	38,003	-	(349,574)	-	(349,574)
Long-term debt services	800	-	-	(800)	-	(800)
Depreciation (unallocated)*	863,782	-	-	(863,782)	-	(863,782)
	1,896,576	708,548	100,000	(1,088,028)	-	(1,088,028)
Total governmental activities	17,390,067	3,229,913	100,000	(12,665,576)	-	(12,665,576)

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	\$	\$	\$	\$	\$	\$
Non-instructional programs	945,102	545,440	-	-	(14,024)	(14,024)
Nutrition services		385,638				
Total	<u>18,335,169</u>	<u>1,940,018</u>	<u>100,000</u>	<u>(12,665,576)</u>	<u>(14,024)</u>	<u>(12,679,600)</u>
General revenues:						
Property tax levied for:						
General purposes				4,778,188	-	4,778,188
Management Fund				350,433	-	350,433
Capital outlay				431,599	-	431,599
Debt service				304,308	-	304,308
School Infrastructure Local						
Option Sales Tax				1,341,775	-	1,341,775
Unrestricted state grants				7,442,828	-	7,442,828
Unrestricted investment earnings				91,970	-	91,970
Other				53,222	-	53,222
Total general revenue				<u>14,794,323</u>	<u>-</u>	<u>14,794,323</u>
Change in net assets				2,128,747	(14,024)	2,114,723
Net assets beginning of year				12,748,907	158,565	12,907,472
Net assets end of year				<u>14,877,654</u>	<u>144,541</u>	<u>15,022,195</u>

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2007

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Cash and pooled investments	871,933	708,979	652,835	865,539	374,857	3,474,143
ISCAP investments	1,663,368	-	-	-	-	1,663,368
Receivables:						
Property tax:						
Current year	40,267	3,640	2,567	-	2,953	49,427
Succeeding year	4,977,336	451,824	309,125	-	350,000	6,088,285
Due from other governments	390,563	-	-	342,298	-	732,861
Other receivables	3,190	36	25	-	97	3,348
ISCAP accrued interest receivable	497	-	-	-	-	497
Inventories	-	-	-	-	-	-
<b>Total assets</b>	<u>7,947,154</u>	<u>1,164,479</u>	<u>964,552</u>	<u>1,207,837</u>	<u>727,907</u>	<u>12,011,929</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	146,373	-	-	-	11,225	157,598
ISCAP warrants payable	1,666,000	-	-	-	-	1,666,000
ISCAP accrued interest payable	12,786	-	-	-	-	12,786
Deferred revenue:						
Succeeding year property tax	4,977,336	451,824	309,125	-	350,000	6,088,285
Federal programs	5,453	-	-	-	-	5,453
Total liabilities	<u>6,807,948</u>	<u>451,824</u>	<u>309,125</u>	<u>-</u>	<u>361,225</u>	<u>7,930,122</u>
Fund balances:						
Reserved for:						
Debt service	-	-	655,427	-	-	655,427
Construction project	-	-	-	1,207,837	-	1,207,837
Unreserved	<u>1,139,206</u>	<u>712,655</u>	<u>-</u>	<u>-</u>	<u>366,682</u>	<u>2,218,543</u>
Total fund balances	<u>1,139,206</u>	<u>712,655</u>	<u>655,427</u>	<u>1,207,837</u>	<u>366,682</u>	<u>4,081,807</u>
<b>Total liabilities and fund balances</b>	<u>7,947,154</u>	<u>1,164,479</u>	<u>964,552</u>	<u>1,207,837</u>	<u>727,907</u>	<u>12,011,929</u>

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2007

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 4,081,807
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	20,083,898
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(30,221)
Long-term liabilities, including compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Compensated absences	(30,400)
Early retirement	(377,430)
General obligation bonds	(3,600,000)
Sales tax revenue bonds	<u>(5,250,000)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u>\$ 14,877,654</u>

## SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2007

	General		Physical Plant and Equipment Levy		Debt Service		Capital Projects		Nonmajor Special Revenue		Total	
	\$		\$		\$		\$		\$		\$	
Revenues:												
Local sources:												
Local tax	4,778,188		431,599		304,308		1,341,775		350,433		7,206,303	
Tuition	1,339,680		-		-		-		-		1,339,680	
Other	300,537		419,799		37,739		28,984		416,914		1,203,973	
State sources	8,906,454		374		264		-		309		8,907,401	
Federal sources	671,965		-		-		100,000		-		771,965	
Total revenues	15,996,824		851,772		342,311		1,470,759		767,656		19,429,322	
Expenditures:												
Instruction:	11,587,036		125,175		-		-		563,848		12,276,059	
Support services												
Student services	195,472		-		-		-		2,578		198,050	
Instructional staff services	342,547		-		-		-		1,273		343,820	
Administration services	1,929,620		-		-		-		13,137		1,942,757	
Operation and maintenance of plant services	1,511,654		7,950		-		-		126,158		1,645,762	
Transportation services	440,988		75,593		-		-		44,697		561,278	
	4,420,281		83,543		-		-		187,843		4,691,667	

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2007

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Other expenditures:						
Facilities acquisition and construction services	-	178,833	-	1,957,703	-	2,136,536
Long-term debt:						
Principal	-	-	790,000	-	-	790,000
Interest	-	-	388,883	-	-	388,883
Services	-	-	800	-	-	800
AEA flowthrough	641,561	-	-	-	-	641,561
	<u>641,561</u>	<u>178,833</u>	<u>1,179,683</u>	<u>1,957,703</u>	<u>-</u>	<u>3,957,780</u>
Total expenditures	<u>16,648,878</u>	<u>387,551</u>	<u>1,179,683</u>	<u>1,957,703</u>	<u>751,691</u>	<u>20,925,506</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(652,054)</u>	<u>464,221</u>	<u>(837,372)</u>	<u>(486,944)</u>	<u>15,965</u>	<u>(1,496,184)</u>
Other financing sources (uses):						
Sale of real property	-	89,492	-	-	-	89,492
Operating transfers in	-	-	875,448	648,561	-	1,524,009
Operating transfers out	-	(648,561)	-	(875,448)	-	(1,524,009)
Total other financing sources	<u>-</u>	<u>(559,069)</u>	<u>875,448</u>	<u>(226,887)</u>	<u>-</u>	<u>89,492</u>
Net change in fund balances	<u>(652,054)</u>	<u>(94,848)</u>	<u>38,076</u>	<u>(713,831)</u>	<u>15,965</u>	<u>(1,406,692)</u>
Fund balances beginning of year	<u>1,791,260</u>	<u>807,503</u>	<u>617,351</u>	<u>1,921,668</u>	<u>350,717</u>	<u>5,488,499</u>
Fund balances end of year	<u><u>1,139,206</u></u>	<u><u>712,655</u></u>	<u><u>655,427</u></u>	<u><u>1,207,837</u></u>	<u><u>366,682</u></u>	<u><u>4,081,807</u></u>

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2007

Net change in fund balances - total governmental funds (Exhibit E) \$ (1,406,692)

**Amounts reported for governmental activities in the  
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 3,492,398	
Depreciation expense	<u>(863,782)</u>	2,628,616

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,306

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General obligation bonds	790,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	112,292	
Compensated absences	<u>3,225</u>	<u>115,517</u>

Change in net assets of governmental activities (Exhibit B)	<u>\$ 2,128,747</u>
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## SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund

Year ended June 30, 2007

	School Nutrition
	\$
Operating revenue:	
Local sources:	
Charges for services	545,440
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	384,638
Benefits	110,012
Services	8,937
Supplies	431,122
Depreciation	10,393
Total operating expenses	945,102
Operating (loss)	(399,662)
Non-operating revenues:	
Interest on investments	6,825
State sources	9,667
Federal sources	369,146
	385,638
Change in net assets	(14,024)
Net assets beginning of year	158,565
Net assets end of year	144,541

See notes to financial statements.

## SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2007

	School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	545,612
Cash payments to employees for services	(494,650)
Cash payments to suppliers for goods or services	(409,158)
Net cash provided by (used in) operating activities	<u>(358,196)</u>
Cash flows from non-capital financing activities:	
State grants received	9,667
Federal grants received	307,348
Net cash provided by non-capital financing activities	<u>317,015</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(29,444)
Cash flows from investing activities:	
Interest on investments	<u>6,825</u>
Net increase (decrease) in cash and cash equivalents	(63,800)
Cash and cash equivalents beginning of year	<u>84,411</u>
Cash and cash equivalents end of year	<u><u>20,611</u></u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>	
Operating income (loss)	(399,662)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	10,393
Commodities used	48,122
(Increase) in other receivables	(13)
(Increase) in inventory	(17,125)
(Decrease) in accounts payable	(96)
Increase in unearned revenue	185
	<u>(358,196)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash	<u><u>20,611</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2007, the District received federal commodities valued at \$48,122.

See notes to financial statements.

# SPENCER COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2007

### (1) Summary of Significant Accounting Policies

Spencer Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Spencer, Iowa, and agricultural territory in Clay County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Spencer Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Spencer Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clay County Assessor's Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - This represents money received by the District but not yet earned. It includes School Nutrition Fund lunch ticket credits of \$8,913.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted in any of the four functions.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	639,299	-	-	639,299
Capital assets being depreciated:				
Buildings	11,436,060	11,293,482	105,000	22,624,542
Improvements other than buildings	849,478	-	-	849,478
Furniture and Equipment	4,042,819	723,293	407,961	4,358,151
Construction in progress	8,524,377	-	8,524,377	-
Total capital assets being depreciated	24,852,734	12,016,775	9,037,338	27,832,171
Less accumulated depreciation for:				
Buildings	4,458,638	449,991	105,000	4,803,629
Improvements other than buildings	339,207	32,619	-	371,826
Furniture and Equipment	3,238,906	381,172	407,961	3,212,117
Total accumulated depreciation	8,036,751	863,782	512,961	8,387,572
Total capital assets being depreciated, net	16,815,983	11,152,993	8,524,377	19,444,599
Governmental activities, capital assets, net	17,455,282	11,152,993	8,524,377	20,083,898
<b>Business type activities:</b>				
Furniture and equipment	326,726	29,444	-	356,170
Less accumulated depreciation	267,135	10,393	-	277,528
Business type activities capital assets, net	59,591	19,051	-	78,642
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				863,782
Business Type activities:				
Food service operations				10,393

### (4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll, for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$630,206, \$571,392, and \$571,266 respectively, equal to the required contributions for each year.



**(5) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$641,561 for year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(6) Risk Management**

Spencer Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
General Obligation bonds	\$ 3,740,000	-	140,000	3,600,000	150,000
Revenue bonds	5,900,000	-	650,000	5,250,000	670,000
Early retirement	<u>489,722</u>	<u>-</u>	<u>112,292</u>	<u>377,430</u>	<u>77,374</u>
Total	<u>\$10,129,722</u>	<u>-</u>	<u>902,292</u>	<u>9,227,430</u>	<u>897,374</u>

**(8) Early Retirement**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have reached the age of 55 when the benefit is elected and must have completed at least 10 years of continuous full-time service in the district. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 30% of their full time equivalent salary (note including extended contract and extra duty pay amounts). Benefits may be placed in a bona fide 403b plan or applied to the cost of health insurance offered through the district's group health insurance plan. Benefits for part time employees will be determined on a prorata basis. Early retirement benefits paid during the year ended June 30, 2007 totaled \$12,292. The cost of early retirement benefits expected to be paid both currently and long-term are recorded as long-term liabilities on the Statement of Net Assets (Exhibit A).

**(9) General Obligation Bonds Payable**

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates %	Interest \$	Principal \$	Total \$
2008	3.65	158,725	150,000	308,725
2009	3.85	153,250	155,000	308,250
2010	4.00	147,283	160,000	307,283
2011	4.20	140,882	170,000	310,882
2012	4.20	133,743	175,000	308,743
2013-2017	4.30-4.35	549,817	995,000	1,544,817
2018-2022	4.35-4.65	312,875	1,225,000	1,537,875
2023-2024	4.75-4.90	41,860	570,000	611,860
Total		<u>1,638,435</u>	<u>3,600,000</u>	<u>5,238,435</u>

**(10) Revenue Bonds Payable**

Details of the District's June 30, 2007 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates %	Interest \$	Principal \$	Total \$
2008	3.50	203,923	670,000	873,923
2009	3.75	180,472	690,000	870,472
2010	3.90	154,598	715,000	869,598
2011	3.90	126,712	745,000	871,712
2012	3.95	97,658	775,000	872,658
2013	4.00	67,045	810,000	877,045
2014	4.10	34,645	845,000	879,645
Total		<u>865,053</u>	<u>5,250,000</u>	<u>6,115,053</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- c) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

**(11) Interfund Transfers**

The detail of interfund transfers for the year ending June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	Capital projects	\$ <u>875,448</u>
Capital Projects	Physical plant and equipment levy	\$ <u>648,561</u>

**(12) Contingencies**

The District currently is involved in a personal injury suit regarding a playground accident. Legal counsel has advised us that no probable outcome can be determined at this time, however, existing insurance coverage should be adequate to cover any liability on the part of the District. As no financial liability is anticipated on the part of the District, no amounts have been included in the financial statements.

**(13) Commitment**

Since June 30, 2007, the District has issued \$1,285,000 of Energy Management Capital Loan notes and \$2,310,000 of revenue bonds to be used for implementing energy conservation measures at existing school buildings.

## Required Supplementary Information

**SPENCER COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance - Positive (Negative)
	Actual	Actual	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	9,749,956	552,265	10,302,221	9,335,290	9,335,290	966,931
State sources	8,907,401	9,667	8,917,068	9,048,941	9,048,941	(131,873)
Federal sources	771,965	369,146	1,141,111	1,142,500	1,142,500	(1,389)
Total revenues	19,429,322	931,078	20,360,400	19,526,731	19,526,731	833,669
<b>Expenditures:</b>						
Instruction	12,276,059	-	12,276,059	12,762,053	12,713,755	437,696
Support services	4,691,667	-	4,691,667	4,082,080	5,230,004	538,337
Non-instructional programs	-	945,102	945,102	780,000	951,500	6,398
Other expenditures	3,957,780	-	3,957,780	5,617,492	6,127,133	2,169,353
Total expenditures	20,925,506	945,102	21,870,608	23,241,625	25,022,392	3,151,784
Excess (deficiency) of revenues over (under) expenditures	(1,496,184)	(14,024)	(1,510,208)	(3,714,894)	(5,495,661)	3,985,453
Other financing sources (uses)	89,492	-	89,492	-	-	89,492
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,406,692)	(14,024)	(1,420,716)	(3,714,894)	(5,495,661)	4,074,945
Balance beginning of year	5,488,499	158,565	5,647,064	4,666,884	4,666,884	980,180
Balance end of year	4,081,807	144,541	4,226,348	951,990	(828,777)	5,055,125

See accompanying independent auditor's report.

## **SPENCER COMMUNITY SCHOOL DISTRICT**

### **Notes to Required Supplementary Information - Budgetary Reporting**

Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District amended the budget once during the year increasing budgeted expenditures by \$1,780,767.

During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

## Other Supplementary Information

## SPENCER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2007

	Management Levy	Student Activity	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	193,840	181,017	374,857
Property tax receivable:			
Current year	2,953	-	2,953
Succeeding year	350,000	-	350,000
Other receivables	31	66	97
Total assets	<u>546,824</u>	<u>181,083</u>	<u>727,907</u>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts payable	534	10,691	11,225
Deferred revenue:			
Succeeding year property tax	350,000	-	350,000
	<u>350,534</u>	<u>10,691</u>	<u>361,225</u>
Fund balance:			
Unreserved fund balance	<u>196,290</u>	<u>170,392</u>	<u>366,682</u>
	<u>196,290</u>	<u>170,392</u>	<u>366,682</u>
Total liabilities and fund balance	<u>546,824</u>	<u>181,083</u>	<u>727,907</u>

See accompanying independent auditor's report.



## SPENCER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2007

	Management Levy	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	350,433	-	350,433
Other	5,344	411,570	416,914
State sources	309	-	309
Total revenues	<u>356,086</u>	<u>411,570</u>	<u>767,656</u>
Expenditures:			
Instruction:	159,397	404,451	563,848
Support services:			
Student support services	2,578	-	2,578
Instructional staff support	1,273	-	1,273
Administration services	13,137	-	13,137
Plant operation and maintenance	121,549	4,609	126,158
Student transportation	19,267	25,430	44,697
Non-instructional programs:			
Food service operations	-	-	-
Total expenditures	<u>317,201</u>	<u>434,490</u>	<u>751,691</u>
Excess (deficiency) of revenues over (under) expenditures	38,885	(22,920)	15,965
Fund balances beginning of year	<u>157,405</u>	<u>193,312</u>	<u>350,717</u>
Balance end of year	<u>196,290</u>	<u>170,392</u>	<u>366,682</u>

See accompanying independent auditor's report.

## SPENCER COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
<b>System Wide</b>				
Assemblies	256	2,000	-	2,256
Concessions	358	23,595	23,443	510
Special Events	1,004	-	-	1,004
Staff Courtesy	6,897	-	-	6,897
Drug Free Fundraiser	2,273	-	-	2,273
Clearing	(37)	37	-	-
	<u>10,751</u>	<u>25,632</u>	<u>23,443</u>	<u>12,940</u>
<b>Middle School</b>				
Concessions	-	3,294	2,135	1,159
Band	486	-	-	486
Special Education Fundraiser	51	-	-	51
Staff Courtesy	1,469	1,154	1,081	1,542
Student Council	1,193	4,322	3,154	2,361
Photo Club	<u>10,491</u>	<u>12,895</u>	<u>12,448</u>	<u>10,938</u>
	<u>13,690</u>	<u>21,665</u>	<u>18,818</u>	<u>16,537</u>
<b>Elementary</b>				
At Risk Cycle	63	500	396	167
Jump Rope for Heart	3,011	-	733	2,278
Art/Technology	782	-	-	782
Reading	397	-	-	397
Success	130	-	-	130
Take Home Bags	51	-	-	51
<b>Fairview:</b>				
Photo Club	1,919	1,440	1,891	1,468
Art/Technology	208	-	-	208
<b>Jefferson:</b>				
Staff Courtesy	46	-	-	46
Photo Club	380	-	-	380
<b>Johnson:</b>				
Special Education Fundraiser	1,487	-	568	919
Staff Courtesy	936	2,027	1,937	1,026
Student Council	288	-	-	288
Photo Club	881	2,149	1,749	1,281
Johnson Store	229	966	652	543
Art/Technology	183	-	-	183
Computer Club	<u>1,626</u>	<u>-</u>	<u>-</u>	<u>1,626</u>
<b>Lincoln:</b>				
Special Education Fundraiser	-	1,000	543	457
Staff Courtesy	84	-	55	29
Environment Club	192	-	-	192
Photo Club	1,755	1,723	1,431	2,047
Computer Club	<u>390</u>	<u>-</u>	<u>-</u>	<u>390</u>
	<u>15,038</u>	<u>9,805</u>	<u>9,955</u>	<u>14,888</u>

## SPENCER COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
<b>High School</b>				
Drama	6,458	13,044	13,502	6,000
Speech Club	5,251	8,016	8,267	5,000
Vocal	12,019	38,091	49,072	1,038
Band	1,011	6,407	6,418	1,000
Band/Choir	-	10,966	10,966	-
Intramurals	1,038	400	277	1,161
Track	7,543	8,263	8,883	6,923
Cross Country	2,805	1,999	2,398	2,406
Boys Basketball	8,873	6,100	7,842	7,131
Football	14,579	33,136	33,577	14,138
Boys Soccer	6,885	3,566	6,951	3,500
Baseball	8,095	8,465	9,560	7,000
Boys Track	68	-	-	68
Boys Tennis	1,515	1,000	922	1,593
Boys Golf	1,870	1,000	1,184	1,686
Boys Swimming	2,644	3,921	4,341	2,224
Wrestling	7,192	7,251	8,224	6,219
Girls Basketball	7,461	6,330	6,259	7,532
Volleyball	5,000	6,328	6,328	5,000
Girls Soccer	3,100	6,500	2,873	6,727
Softball	6,456	7,825	7,781	6,500
Girls Tennis	2,431	-	874	1,557
Girls Golf	1,637	1,325	1,558	1,404
Girls Swimming	3,028	7,528	7,285	3,271
General Athletics	684	17,678	33,711	(15,349)
Athletic Revolving	711	6,380	6,844	247
Athletic Enhancement	1,186	3,415	3,593	1,008
Tourney and Hosted Events	543	73,688	63,664	10,567
FFA	5,055	11,108	10,430	5,733
Business Management	497	1,857	1,629	725
Staff Courtesy	1,845	2,871	3,977	739
Custodial	563	968	1,273	258
Environment Club	195	-	-	195
Student Council	7,938	7,944	5,669	10,213
Pep Club	2,469	3,796	5,177	1,088
German Club	2,932	5,065	6,290	1,707
Spanish Club	3,586	2,616	2,033	4,169
Photo Club	768	3,700	4,468	-
Art	532	-	-	532
Class of 2008	-	5,846	5,821	25
Class of 2007	1,285	-	90	1,195
Class of 2005	210	-	210	-
Class of 2006	1,139	-	1,139	-
Mock Trial	1,697	499	585	1,611
Debate Club	1,798	5,526	5,671	1,653
Spencerian	1,241	14,050	14,658	633
	<u>153,833</u>	<u>354,468</u>	<u>382,274</u>	<u>126,027</u>
<b>Total</b>	<u>193,312</u>	<u>411,570</u>	<u>434,490</u>	<u>170,392</u>

See accompanying independent auditor's report.

## SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Four Years

		Modified Accrual Basis			
		2007	2006	2005	2004
		\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax		7,206,303	6,633,075	7,813,540	5,692,784
Tuition		1,339,680	1,112,866	1,030,567	993,454
Other		1,203,973	1,333,398	1,912,346	877,192
State sources		8,907,401	8,376,770	8,279,593	7,859,562
Federal sources		771,965	872,062	991,030	489,174
Total		<u>19,429,322</u>	<u>18,328,171</u>	<u>20,027,076</u>	<u>15,912,166</u>
Expenditures:					
Instruction		12,276,059	11,270,942	11,005,690	10,912,812
Support services:					
Student		198,050	138,449	384,533	429,090
Instructional staff		343,820	269,397	235,468	509,008
Administration		1,942,757	1,723,695	1,557,864	1,123,929
Operation and maintenance of plant		1,645,762	1,354,485	1,194,718	1,216,383
Transportation		561,278	603,875	400,540	392,553
Non-instructional programs		-	-	34,369	68,357
Other expenditures:					
Facilities acquisition		2,136,536	9,638,500	4,733,468	479,966
Debt service:					
Principal		790,000	135,000	125,000	-
Interest and services		389,683	394,410	385,130	-
AEA flowthrough		641,561	601,508	600,878	591,211
Total		<u>20,925,506</u>	<u>26,130,261</u>	<u>20,657,658</u>	<u>15,723,309</u>

See accompanying independent auditor's report.

## SPENCER COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY07	<u>48,122</u>
School Nutrition Cluster Programs:			
National School Lunch Program	10.555	FY07	238,483
Food and Vegetable Pilot Grant	10.555	FY07	29,883
School Breakfast Program	10.553	FY07	<u>52,658</u>
			<u>321,024</u>
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6102-G-07	200,730
Innovative Education Program Strategies	84.298	FY07	2,583
Improving Teacher Quality - Grants to States	84.367	FY07	77,613
Grants for Assessments and Related Activities	84.369a	FY07	14,035
Tech Prep Demonstration Grants	84.353	FY07	2,300
Vocational Education - Basic Grants to States	84.048	FY07	13,571
Safe and Drug Free Schools and Communities	84.186	FY07	6,963
Iowa Demonstration Construction Grant	84.215K	FY07	100,000
Prairie Lakes Area Education Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY07	104,923
Corporation for National and Community Service:			
Learn and Serve America (Comserv Iowa 2007)	94.004	FY07	<u>1,198</u>
Total			<u><u>893,062</u></u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Spencer Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**BRUCE D. FRINK**  
Certified Public Accountant

Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

**Services:**

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

**Plus:**

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
Spencer Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Spencer Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 13, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Spencer Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spencer Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Spencer Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Spencer Community School District's financial statements that is more than inconsequential will not be prevented or detected by Spencer Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-II-A to be a material weakness.

#### Compliance and Other Matters

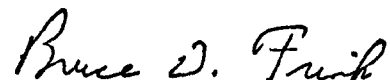
As part of obtaining reasonable assurance about whether Spencer Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Spencer Community School District's response to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Spencer Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spencer Community School District and other parties to whom Spencer Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



**BRUCE D. FRINK**  
**Certified Public Accountant**

March 13, 2008

**BRUCE D. FRINK**  
**Certified Public Accountant**

**Independent Auditor's Report on Compliance with Requirements**  
**Applicable to Each Major Program and on Internal Control**  
**over Compliance in Accordance with OMB Circular A-133**

**Member:**

- American Institute of Certified Public Accountants
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**Services:**

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- Monthly/Quarterly Write-Up
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- Bank Loan Assistance
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**Plus:**

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
Spencer Community School District:

**Compliance**

We have audited the compliance of Spencer Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Spencer Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Spencer Community School District's management. Our responsibility is to express an opinion on Spencer Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Spencer Community School District's compliance with those requirements.

In our opinion Spencer Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

**Internal Control Over Compliance**

The management of Spencer Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Spencer Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spencer Community School District's internal control over compliance.




Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-III-A to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-III-A to be material weakness.

Spencer Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Spencer Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spencer Community School District and other parties to whom Spencer Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



**BRUCE D. FRINK**  
**Certified Public Accountant**

March 13, 2008

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.215K - Iowa Demonstration Construction Grant
  - CFDA Number 84.367 - Improving Teacher Quality - Grants to StatesSchool Nutrition Clustered Programs:
  - CFDA Number 10.555 - National School Lunch Program
  - CFDA Number 10.555 - Fruit and Vegetable Pilot Grant
  - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Spencer Community School District did not qualify as a low-risk auditee.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

07-II-A      Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa such makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the district has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.215K Iowa Demonstration Construction Grant  
Federal Award Year: 2007  
US Department of Education

CFDA Number: 10.553 School Breakfast Program  
10.555 National School Lunch Program  
10.555 Fruit and Vegetable Pilot Grant

Federal Award Year: 2007  
US Department of Agriculture  
Passed through Iowa Department of Education

CFDA Number: 84.367 Improving Teacher Quality - Grants to States  
Federal Award Year: 2007  
US Department of Education  
Passed through Iowa Department of Education

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**Part III: Findings For Federal Awards:**  
**continued:**

07-III-A Segregation of Duties over Federal Funds - The District did not properly segregate custody, record-keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa such makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the District has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

07-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2007.

07-IV-B Certified Budget - Expenditures for the year ended June 30, 2007 did not exceed the certified budget amounts in any of the four functions.

07-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

07-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

07-IV-E Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

07-IV-F Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

07-IV-G Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

07-IV-H Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

07-IV-I Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**Part IV: Other Findings Related to Required Statutory Reporting:**  
**continued:**

07-IV-J      Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ross Brockshus, Board Member		
Part owner of Del's Garden	Services	\$ 160
Center, Inc.	Landscaping	\$58,557
	(properly bid project)	

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with Mr. Brockshus do not appear to represent conflicts of interest since non-bid transactions totaled less than \$2,500 for the fiscal year. The landscaping project was properly bid and thus does not appear to violate Chapter 279.7A

Recommendation - The District should continue to review these expenditures to ensure continued compliance.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.